United Nations A/69/809

General Assembly

Distr.: General
4 March 2015

Original: English

Sixty-ninth session
Agenda item 131
Review of the efficiency of the administrative and financial functioning of the United Nations

United Nations procurement activities

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the Secretary-General on United Nations procurement activities (A/69/710). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 2 March 2015.

2. The report of the Secretary-General was submitted pursuant to General Assembly resolution 68/263. In that resolution, the General Assembly, having considered the earlier reports of the Secretary-General on United Nations procurement activities,[1] requested the Secretary-General to submit a comprehensive report on United Nations procurement activities for consideration by the Assembly at its sixty-ninth session. In the present report, the Advisory Committee refers to the observations and recommendations in its previous report on procurement activities (A/67/801), where appropriate, as well as the observations and recommendations of the Board of Auditors on the financial statements of United Nations peacekeeping operations for the period from 1 July 2013 to 30 June 2014 (A/69/5 (Vol. II)).

3. In the introduction to the report, the Secretary-General indicates that the Procurement Division has reached an advanced stage in its transition from a historically transactional function to becoming a highly professionalized and strategic partner in the Organization's supply chain. The Secretary-General explains

[1] The reports of the Secretary-General on United Nations procurement activities (A/64/284 and A/67/683 and Corr.1 and 2); the pilot project on the independent procurement challenge system (A/67/683/Add.1); the response to the comprehensive report of the Office of Internal Oversight Services on United Nations procurement activities (A/67/683/Add.2); the procurement governance arrangements within the United Nations (A/64/284/Add.1); and sustainable procurement (A/64/284/Add.2).

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that the modernized approach to procurement entails strategic interaction across departments, locations, operational mandates and budget cycles and that such a procurement strategy would lead to efficiency gains. It is expected that the full implementation of Umoja (see paras. 6 to 8 below) will complement this procurement strategy by enhancing the coordination of several interrelated business processes, resulting in improved efficiency and a reduction in duplicative administrative processes, among other benefits.

4. The Secretary-General indicates that the Procurement Division is undertaking several key initiatives that will further advance the strategic approach to United Nations procurement and modernize the acquisition process. The key initiatives in this regard include: (a) using Umoja business intelligence as a strategic procurement tool; (b) changing the procurement process for air charter services in order to increase competition and ensure alignment with industry best practices; (c) continuously professionalizing the Procurement Practice Group; (d) implementing an electronic tendering (e-tendering) option; and (e) planning a tailored procurement strategy for modularization.

Need for clarity in the presentation of preliminary proposals

5. The Advisory Committee notes that the report includes proposals that may require consideration and approval by the General Assembly, such as the expansion of the independent procurement challenge programme to offices away from Headquarters, regional commissions and peacekeeping operations (A/69/710, para. 46), or issues related to sustainable procurement (ibid., para. 63). The Committee further notes that, in the report, these proposals have not been presented prominently or even highlighted among the actions to be taken by the Assembly. **The Committee is of the view that such proposals should have been more clearly formulated and supported by adequate analysis to facilitate their consideration by the Assembly.**

II. Transformation of United Nations procurement from transactional purchasing to supply chain management

Umoja

6. The Secretary-General indicates that the implementation of Umoja enables a modern and efficient approach to acquisitions, increasing the transparency, accountability and stewardship of resources, while improving the delivery of results and services to clients globally. He also indicates that, in order to realize the benefits of Umoja, the Procurement Division will undertake a strategic analysis of the current organizational structure and the corresponding roles and responsibilities of the Secretariat's global procurement community. Upon enquiry, the Advisory Committee was informed that, as concerns the Secretariat, the analysis would focus on identifying opportunities for the optimal delivery of procurement services globally. The Committee was also informed that, prior to the roll-out of Umoja, a thorough review of procurement processes had been undertaken to ensure that all the required procurement practices were incorporated at the design phase of the system.

7. The Secretary-General explains that Umoja's supply chain module serves as a centralized platform for interrelated business processes, such as sourcing, solicitations, logistics and contract management, receipt and inspection, as well as the payment of invoices, which, until now, have operated as functional silos. Such integration offers significant efficiency benefits and should eliminate duplicate procurement processes. Furthermore, the Secretary-General indicates that Umoja will enhance the accessibility of all offices within the global Secretariat to the Procurement Division's systems contracts, thereby facilitating the achievement of greater economies of scale through the consolidation of local procurement requirements.

8. **The Advisory Committee expects that the integration offered by Umoja will ensure that duplicate procurement processes are eliminated and economies of scale achieved through improved planning and consolidation of procurement requirements. The Committee looks forward to receiving information on the impact of Umoja in future reports to the General Assembly.**

Communications and Information Technology Section

9. In paragraph 7 of his report, the Secretary-General indicates that the Communications and Information Technology Section was established within the Procurement Division in 2012 to instil an appropriate governance structure for information and communications technology (ICT) procurement. He also indicates that the Section has focused on implementing new models of contracts and procurement for complex ICT programmes that will assist the Organization in achieving its mandates with increased focus on internal controls and better cost control mechanisms.

10. Upon enquiry as to who the clients of the Section were, the Advisory Committee was informed that the Section manages ICT procurement for all peacekeeping operations, Headquarters offices, offices away from Headquarters and special political missions. In this regard, its two largest clients were the Information and Communications Technology Division of the Department of Field Support and the Office of Information and Communications Technology of the Department of Management. Upon further enquiry, the Committee was informed that the Communications and Information Technology Section would achieve economies of scale in ICT procurement within the Organization by consolidating requirements and undertaking procurement at the global level. The Committee was further informed that, as the only procurement entity in the Organization specialized in ICT, the Section provided leadership and was able to leverage its experience in this highly complex area. The Committee was informed that the Section had created tools which allowed for better forecasting of client needs and assessment of requirements to assist in the awarding of contracts.

11. The Advisory Committee notes that the Board of Auditors, in its report on the financial statements of United Nations peacekeeping operations for the period from 1 July 2013 to 30 June 2014, observed weaknesses in the process of setting standards for the acquisition of ICT equipment and services (A/69/5 (Vol. II), chap. II, paras 369-373). In particular, the Board of Auditors observed that the proposals for standards for the acquisition of ICT equipment in peacekeeping operations did not spell out the operational requirements to be met, the options available for meeting those requirements or how the product or company selected

would fulfil the requirements. Furthermore, the Board noted that the proposals for the renewal of existing standards were not based on systematic user feedback and, in some cases, not based on a competitive comparison with other products on the market. The Board also observed that no evaluation of the cost of change had been undertaken in the process of either bringing in new technologies or migrating to them as standards (ibid., paras. 375-377) and that significant amendments had been made in some contracts without the specific recommendations of the Headquarters Committee on Contracts (ibid., paras. 378-387).

12. **Taking into consideration the observations of the Board of Auditors, the Advisory Committee is of the view that greater effort needs to be made to address the disconnect between the standard-setting process in the acquisition of equipment and the operational requirements of the requisitioning offices. The Committee expects that the consolidation of ICT procurement under the Communications and Information Technology Section will help in addressing all of the weaknesses highlighted by the Board of Auditors.**

Transition in solicitation methodology for long-term air charter requirements

13. The Secretary-General indicates that, in order to provide effective support to peacekeeping missions and special political missions as they comply with Security Council resolutions, the Procurement Division and the Department of Field Support are implementing a new solicitation methodology in the acquisition of air assets and logistics services with a view to allowing greater operational flexibility and the enhancement of international competition and ensuring better value for the Organization. The Secretary-General explains that, in addition to feedback from representatives of the industry and Member States, expert advice has been sought from the International Civil Aviation Organization (ICAO) to change the solicitation process for air charter requirements from invitation to bid to request for proposal. The request for proposal document outlines the Organization's logistical requirements, instead of directing how they should be met by a specific technical solution, as is the case with the invitation to bid. The Secretary-General explains that under the request for proposal methodology, the award recommendations are based on the most responsive proposal, taking into account a combination of weighted technical and commercial merits. The Secretary-General indicates that this updated solicitation methodology complies with the United Nations guiding procurement principles, while utilizing best industry practices to address increasingly complex aviation requirements. The Secretary-General also points out that the request for proposal methodology is already used by the Secretariat for other complex solicitations, such as food rations, fuel, information technology, medical and engineering requirements. Upon enquiry, the Advisory Committee was informed that, since 2012, the Secretariat had worked with ICAO, which provided technical advice and recommendations for the transition project through the Technical Cooperation Bureau of that Organization, in accordance with the terms and conditions stipulated in the project agreement.

14. In paragraphs 11 to 16 of his report, the Secretary-General discusses various aspects of the new methodology, including the requirement for bidders to commit to specified key performance indicators, such as aircraft availability, responsiveness and surge capacity, and the modernization of the technical evaluation criteria to cover operator experience, aircraft performance, personnel qualifications and safety oversight. The Secretary-General conveys the preliminary outcome of a pilot

request for proposal issued in June 2014 for the United Nations Organization Stabilization Mission in the Democratic Republic of the Congo (MONUSCO), for which 22 proposals were received by the closing date in August 2014. The Advisory Committee was also informed that in contrast to previous invitations to bid, which, on average, had drawn five vendors with limited geographic diversity, the 22 proposals that had been received represented a wide geographic span and 5 of them were first-time entrants in the United Nations procurement market. Upon enquiry, the Committee was informed that the evaluation of the proposals had taken approximately five months to complete owing to their large number and the requests for clarification to and from bidders during the evaluation period. In that regard, the Committee was informed that, with the benefit of experience and familiarization with the new evaluation system, future solicitation timelines would be significantly shortened.

15. **The Advisory Committee welcomes the positive industry response reflected in the significantly increased number of vendors participating in the solicitation process, as well as their wide geographic representation, and notes that the Organization will benefit from the broader participation of vendors and a more competitive solicitation process. In the light of the increase in the number of proposals as a result of the transition to the new solicitation methodology, the Committee expects that every effort will be made to refine the evaluation process in order to reduce the amount of time it takes, while ensuring that it is fair and transparent.**

16. Upon enquiry, the Advisory Committee was informed that the first step in launching a phased roll-out of the revised solicitation methodology had been the issuance of a pilot request for proposals tender in June 2014 (see para. 14 above), upon the conclusion of which, the Secretariat would analyse the benefits and areas for improvement and use the lessons learned to further refine the methodology, with full-scale implementation anticipated for the second quarter of 2015. The Committee was further informed that the request for proposals methodology was one instrument in a broader toolkit that could be utilized to respond to different types of procurement needs, such as start-up peacekeeping missions, urgent surge requirements or supply-chain optimization in established peacekeeping missions or stand-by fleet requirements.

17. The Advisory Committee recalls that, in paragraph 50 of its resolution 65/289, the General Assembly recognized the launch of a pilot project on the transition to the request for proposal methodology for the acquisition of air services, noted that best value for money was one of the four key principles for United Nations procurement, along with fairness, integrity and transparency; effective international competition; and the interest of the United Nations, according to the Financial Regulations and Rules of the United Nations, and reiterated its request to the Secretary-General to report on clear guidelines for the implementation of the best value for money methodology in United Nations procurement, including all specifics of the weighted evaluation techniques, and to submit a report on the results of the pilot project. Furthermore, in paragraph 51 of the same resolution, the Assembly requested the Secretary-General to ensure full transparency in developing the request for proposal methodology and emphasized that the development of requests for proposal would be driven by the operational requirements of the Organization.

Other initiatives

Electronic tendering pilot

18. The Secretary-General indicates that the Procurement Division initiated an e-tendering pilot project in 2014 limited to request for quotation solicitation exercises managed by the Communications and Information Technology Section. The Secretary-General also indicates that the pilot project was selected on the basis of the relatively low risk, low value (requirements not exceeding $40,000) and simple process of requests for quotation, where efficiency gains could easily be realized. Upon enquiry, the Advisory Committee was informed that the integration of e-tendering functionality in the online vendor roster of the United Nations Secretariat had been completed and the request for quotation template configured to meet the needs of the pilot project. Accordingly, the first batch of pilot tenders would be launched by March 2015. The Committee was further informed that transparency would be ensured through targeted outreach to suppliers, collection of feedback using surveys and publishing of survey results on the website of the Procurement Division. According to the information provided to the Committee, it is expected that by the third quarter of 2015 sufficient data will have been collected from the pilot project to enable an assessment of how the pilot could be extended to other solicitation instruments and/or sections of the United Nations Secretariat. **The Committee commends the use of information technology to achieve efficiency in the processing of solicitations. The Committee stresses that every effort should be made to maintain transparency in the implementation of the project and looks forward to receiving the results of its implementation in future reports to the General Assembly.**

Food rations contracts

19. The Secretary-General indicates that in September 2012 the Procurement Division commenced the rebidding of various food rations contracts, introducing revised specifications and standards. The revised specifications were the result of a comprehensive review of food rations requirements conducted jointly by the Procurement Division and the Department of Field Support between March 2009 and August 2011, with an emphasis on quality standards and control mechanisms in order to enhance efficiency and competition. The Secretary-General indicates that, as a result of the rebidding exercise, 11 contracts have been replaced and contracts for two new peacekeeping missions, the United Nations Multidimensional Integrated Stabilization Mission in Mali and the United Nations Multidimensional Integrated Stabilization Mission in the Central African Republic, have been established. The Secretary-General notes that the average overall cost of contracts for the provision of food rations and associated services for peacekeeping missions has decreased, resulting in annual savings of approximately $45 million and that the revised standards have led to enhanced health, food safety and quality standards through a process of inspection, certification and improved risk mitigation measures. **The Advisory Committee commends the reported improvements in the management of food rations contracts. The Committee recommends that information indicating how the savings were estimated, including such contributory factors as changes in currency exchange rates, be provided to the General Assembly at the time of its consideration of the report of the Secretary-General.**

Fuel contracts

20. The Secretary-General indicates that, in addition to undertaking the procurement of fuel requirements for the larger field missions, the Procurement Division has now assumed responsibility for the establishment of fuel contracts with smaller volumes, which had, in the past, been tendered by local procurement offices. The Secretary-General indicates that the purpose of the assuming responsibility for fuel contracts with smaller volumes is to improve service and ensure proper risk management, leveraging the accumulated expertise of the Procurement Division. He also indicates that the Office of Legal Affairs has developed United Nations-specific model contracts, which include provisions that ensure timely mobilization through liquidated damages clauses, protect against environmental liabilities and allow operational flexibility for changing needs in terms of rapid deployment or additional distribution points.

Implementation of the procurement training road map

21. In paragraph 37 of his report, the Secretary-General outlines the training courses offered by the Procurement Division at various levels through the online Procurement Training Campus and other means for requisitioners, procurement staff and contract management offices. The Secretary-General indicates that procurement staff are also able to receive online advanced training leading to professional certification and adds that by strengthening the internal control framework for the procurement function through continuous training and professionalization, the Organization continues to mitigate the risks of inefficiencies and ethical violations. Upon enquiry, the Advisory Committee was informed that the Procurement Division provided three levels of procurement training as follows: (a) basic-level training and certification provided through the Division's online Procurement Training Campus, which is mandatory for procurement staff; (b) intermediate-level training and certification offered through the Procurement Training Campus, which is optional for procurement staff depending on their functions; (c) training offered through an internationally recognized procurement institution, leading to internationally recognized certification and accreditation in procurement. The Committee was informed that the continued provision of such training for all procurement staff would depend on the availability of funding. **The Committee recognizes that the training of staff at all levels of the procurement function plays an important role in the professionalization of the procurement process across the Organization and commends the concerted efforts that have been made by the Procurement Division in this regard. The Committee stresses that such efforts should be complemented by a recruitment policy that emphasizes the selection of candidates with the up-to-date skills and competencies required to perform the key functions that will drive the transformation of United Nations procurement.**

Compliance monitoring

22. In his earlier report on procurement activities, the Secretary-General outlined the procurement assistance visit programme, which was aimed at ensuring compliance with the Financial Regulations and Rules of the United Nations, the Procurement Manual and internationally recognized best practices in procurement at peacekeeping missions and the special political missions (A/67/683, para. 18). In view of the benefits achieved through the procurement assistance visit programme,

the Secretary-General envisages its expansion to include offices away from Headquarters, regional commissions and tribunals, and in that regard, indicates that he intends to seek additional resources during the biennium 2016-2017 to cover this expansion (A/69/710, para. 40).

23. The Advisory Committee recalls that, in its audit of the financial statements of peacekeeping operations, the Board of Auditors observed various instances of non-compliance with established guidelines in the conduct of procurement activities. The Board observed cases in which increases in the value of contracts were not followed by commensurate increases in the value of performance bonds, as required by paragraph 15.7.3 (a) of the Procurement Manual. This exposed the Organization to the risk of non-performance by vendors. In that regard, the Board recommended the review of the guidelines for obtaining performance bonds (A/69/5 (Vol. II), chap. II, para. 129). The Board also observed instances in which lease agreements were extended contrary to the recommendations of the Headquarters Committee on Contracts or the local committee on contracts and recommended that the Procurement Manual be reviewed to strengthen the role of the local committee on contracts/Headquarters Committee on Contracts as an effective internal control mechanism (ibid., para. 150). **The Advisory Committee stresses the need for closer monitoring of compliance to ensure strict adherence to the provisions of the Procurement Manual and other procurement rules and procedures. In this regard, the Committee expects that the Secretary-General will ensure the full implementation of the recommendations of the Board of Auditors.**

Expansion of the independent procurement challenge programme

24. Paragraphs 44 to 47 of the report provide an update of the independent procurement challenge system, established in 2009, to strengthen internal controls and promote integrity, fairness and transparency in procurement. The system offers unsuccessful bidders in tenders issued by the Procurement Division the opportunity to file challenges through a pilot Award Review Board. The Advisory Committee notes that the eligibility for submitting a procurement challenge to the Award Review Board under the pilot scheme is limited to solicitations with an estimated value of at least $200,000 issued by the Procurement Division at Headquarters or at the Regional Procurement Office in Entebbe, Uganda. **The Committee further notes that the pilot scheme is ongoing and has been extended until 30 June 2015. The Committee considers that any expansion of the scheme into phase 1 (offices away from Headquarters (Geneva, Vienna and Nairobi)); phase 2 (regional commissions and tribunals); and phase 3 (peacekeeping missions and special political missions), should be on the basis of a detailed evaluation of its results and a review of lessons learned in order to determine if and how it should be expanded.**

Increasing business opportunities for vendors from developing countries and countries with economies in transition

25. The Secretary-General indicates that ensuring access to business opportunities for vendors from developing countries and countries with economies in transition remains a high priority for the Organization. In paragraph 51 of his report, the Secretary-General lists some activities in this regard and presents a table showing that the percentage of United Nations procurement from developing countries and countries with economies in transition increased from 40 per cent in 2009 to 55 per

cent in 2013. Upon enquiry, the Advisory Committee was informed that, out of a total of 153 countries whose vendors that were awarded contracts in 2013, 107 were developing countries, 11 were countries with economies in transition and 35 were industrialized countries. According to the information provided, the approximate distribution of contracts by value was 44 per cent for developing countries, 12 per cent for countries with economies in transition and 45 per cent for industrialized countries (see table 1 below). **The Advisory Committee notes the efforts made to promote business opportunities for vendors from developing countries and countries with economies in transition. The Committee is of the view that further progress could be made in this regard and recommends that the General Assembly request the Secretary-General to intensify his efforts to promote procurement from developing countries and countries with economies in transition.**

Table 1
Trends in procurement volume, 2009-2013

	Developing countries			*Countries with economies in transition*			*Industrialized countries*				
Year	*Value (Thousands of United States dollars)*	*Number of countries*	*Percentage of total value*	*Value (Thousands of United States dollars)*	*Number of countries*	*Percentage of total value*	*Value (Thousands of United States dollars)*	*Number of countries*	*Percentage of total value*	*Total value*	*Total number of countries*
2009	936	96	25.18	539	12	14.50	2 242	30	60.32	3 717	138
2010	1 026	90	30.44	596	15	17.68	1 749	34	51.88	3 371	139
2011	1 303	104	37.57	561	12	16.18	1 604	34	46.25	3 469	150
2012	1 291	99	41.83	435	12	14.10	1 360	34	44.07	3 087	145
2013	1 405	107	43.44	370	11	11.44	1 460	35	45.12	3 235	153

Note: Figures for 2011 and 2012 may have discrepancies due to rounding.

Streamlining vendor registration and management

26. The Secretary-General indicates that the introduction of Umoja and its single, global vendor roster provides an opportunity to further consolidate and streamline previously segregated vendor registration and management processes. The Secretary-General also indicates that the Procurement Division will continue to work towards the establishment of an operational framework for the global management of the United Nations Secretariat vendor roster, featuring a centralized approach for comprehensive legal and financial due diligence review and vendor sanctions. To that end, an interim master data management team operating from the Global Support Centre in Brindisi, Italy, had been established. Its review of the vendor roster resulted in the removal of duplicate, inaccurate and incomplete records. The Secretary-General further indicates that several dozen disparate vendor databases had been streamlined to a single workable platform serving all the Secretariat entities, including the field, and that the Secretariat would request that existing temporary resources be regularized in order to maintain this effort and make it sustainable.

27. Upon enquiry regarding temporary resources to be regularized, the Advisory Committee was informed that the report referred to the posts that had been temporarily reassigned from various individual missions in order to meet this

requirement and the need to formalize and regularize these posts in the new structure in order to make it sustainable. This requirement, according to the Secretary-General, should be met without a net increase in posts because of the operational efficiencies to be gained through the centralization of the function. **The Committee trusts that the streamlining and centralization of the vendor management function will result in further efficiencies and be achieved without a net increase in posts.**

Vendor Review Committee

28. The Secretary-General indicates that the Vendor Review Committee serves as a review board for: (a) applications to the Register of Vendors that do not meet the registration criteria; and (b) complaints from requisitioners and/or other United Nations staff against vendors who were alleged to have failed to perform in accordance with the terms and conditions of contracts awarded. In addition, the Secretary-General indicates that the Vendor Review Committee places special emphasis on upholding the Procurement Division's Supplier Code of Conduct and reviews allegations of proscribed practices, including but not limited to corruption, fraud, coercion, collusion, obstruction or any other unethical practices (A/69/710, para. 56). Upon enquiry, the Advisory Committee was informed that during the four-year period from 2011 to 2014, there had been 100 instances in which the Vendor Review Committee had reviewed allegations of proscribed practices involving 61 vendors, resulting in the suspension of 19 vendors from doing business with the United Nations. The Committee was also informed that other recommendations by the Vendor Review Committee included notifying the vendor, referring the case to the Office of Legal Affairs for contractual remedies or referring the case to the Office of Internal Oversight Services for investigation. In addition, the Committee was informed that there had been 55 instances involving 35 vendors in which the Vendor Review Committee had recommended reinstatement. **The Committee notes the activities of the Vendor Review Committee and looks forward to continued reporting on its activities in future reports of the Secretary-General to the General Assembly.**

Regional Procurement Office

29. The Regional Procurement Office was established in Entebbe on 15 July 2010 as a pilot project. The Office operates as an integral part of the Procurement Division, reporting to the Chief of the Field Procurement Service (A/67/683, para. 7). In paragraph 26 of his report (A/69/710), the Secretary-General indicates that the Office is led by a Section Chief and is staffed on a cost-neutral basis with 22 posts from peacekeeping missions and 2 posts from the Procurement Division. The Secretary-General indicates that in September 2013, a new governance framework was established for the Office, defining clearer procedures and policies for developing joint acquisition plans. He also indicates that, in December 2013, standard operating procedures were issued to ensure compliance with the governance framework and implement a service level agreement between the Office and its mission clients, which is expected to strengthen the engagement of the missions and enhance the timely submission of their procurement requirements. The Secretary-General indicates that, in addition to consolidating procurement at the regional level, the Office provides training to mission staff and critical support to missions undergoing expansion and deployment, and seeks to engage with regional

and local vendors. Upon request, the Advisory Committee was provided with information on the number of contracts established by the Office in 2012 and 2013 (see table 2 below), showing that, while there was an increase in the number of mission-specific contracts, there was a significant reduction in both the number and value of regional systems contracts established by the Office.

Table 2
Contracts established by the Regional Procurement Office

	Regional systems contracts		*Mission-specific contracts*	
Year	*Number of contracts*	*Value (United States dollars)*	*Number of contracts*	*Value (United States dollars)*
2013	15	188 341 932	45	132 664 054
2014	10	47 878 492	52	79 110 307

30. Upon request, the Advisory Committee was provided with information showing a total of $1.7 million in annual administrative cost savings attributable to the establishment of the Regional Procurement Office (see table 3 below). According to the information provided, most of the savings ($1 million annually) accrued from cost avoidance owing to the consolidation in the Regional Procurement Office of staff who conduct the joint acquisition of goods, as opposed to having staff conduct the same solicitations in multiple missions. In addition, the Committee was informed that savings amounting to $973,892 had been generated by the Office from the consolidation of regional procurement requirements and economies of scale. The Committee was also informed that the Office had achieved reductions in contract rates compared to the contracts established by individual missions in the past ,for an estimated net reduction over the estimated lifespan of the contracts of $5,982,129 in mission-specific contracts.

Table 3
Annual administrative cost savings realized by the Regional Procurement Office

Description of savings	*Amount (United States dollars)*
Overhead savings (lower salaries and benefits at the Regional Procurement Office than at client missions)	588 324
Cost savings from non-entitlement of Regional Procurement Office staff to rest and recuperation allowance	126 707
Administrative cost avoidance owing to the consolidation of procurement activities	1 002 566
Total	**1 717 597**

31. In paragraph 41 of his report, the Secretary-General indicates that the revised delegation of procurement authority to the Under-Secretary-General for Field Support, effective July 2012, increased the threshold for peacekeeping mission procurement sections from $75,000 to $150,000, with appropriate internal controls and enhanced reporting and monitoring requirements to mitigate risks. Upon enquiry, the Advisory Committee was informed that the establishment of the

Regional Procurement Office pilot project had not affected the delegation of authority to the peacekeeping mission procurement sections. The Committee was further informed that the increased threshold was in relation to procurement sections within each of the field missions, but that the overall threshold for each mission was still within the delegated procurement authority issued by the Assistant-Secretary-General for Central Support Services on 10 July 2012, according to which, requirements estimated at an amount lower than $500,000 (or $1 million for core requirements such as building materials, construction, waste disposal, landscaping and leases) would be processed locally by the missions. The Committee was informed that for procurement amounts exceeding $150,000 and up to the above-mentioned thresholds, the procurement section of each mission would still be required to obtain the recommendation of the local committee on contracts and the approval of the Director/Chief of Mission Support. **The Committee re-emphasizes the importance of well-defined and properly implemented delegation of authority to those involved in the procurement process** (see A/67/801, para. 16).

32. With regard to the present status of the Regional Procurement Office, the Advisory Committee was informed that the Office would continue as a pilot project to ensure that the quality of the services provided, as well as the goods and services procured, meet the needs of the client missions, while adhering to established rules, and that the Office would remain scalable and adaptable to the changing needs of field operations. As to whether and when it would transition from a pilot project to a regular office, the Committee was informed that, based on the results achieved by the pilot, as well as its overall benefits, the Secretary-General would support its full establishment as a permanent section of the Procurement Division. However, it was considered prudent to harmonize the full establishment of the Regional Procurement Office with the transition to a global service delivery model, about which a proposal is to be submitted to the General Assembly for consideration at the main part of its seventieth session.

33. The Advisory Committee recalls that, in its report on the financial statements of the peacekeeping operations, the Board of Auditors observed that specific elements, such as the estimated quantity (number of units) or term (number of months or years) and the date or quarter during which the goods are required to be delivered or the services or work are required to commence and be completed, were missing from the joint acquisition plan of the Regional Procurement Office for the 2013/14 period, thereby undermining its utility. The Board also noted that the joint acquisition plan for 2014/15 was still not ready at the end of August 2014. Furthermore, and of particular concern to the Committee, the Board observed that the average utilization rate of the regional systems contracts administered by the Office was only 32 per cent. The Board's recommendation in this regard was that action should be taken to increase the rate of utilization of the regional systems contracts and that missions should be prevailed upon to utilize such contracts where they are available.

34. **The Advisory Committee welcomes the benefits realized thus far by the Regional Procurement Office in terms of administrative cost savings and savings from the consolidation of the procurement requirements of the client missions. The Committee also recognizes the important role played by the Office in providing staff training and vendor outreach activities at the regional level. Taking into consideration the observations of Board of Auditors, the Committee concurs that greater effort needs to be made to increase the**

utilization of the systems contracts administered by the Office if the objective of economies of scale is to be fully realized. The Committee is of the view that missions should be required to avail themselves of the systems contracts where they are available and to justify any exception to this requirement. With regard to the future status of the Office and its possible transition from a pilot project to a permanent office within the Procurement Division, the Committee concurs with the Secretary-General that it would be prudent to harmonize the full establishment of the Regional Procurement Office with the transition to the global service delivery model.

III. Challenges

Need for further consideration of sustainable procurement

35. In paragraph 62 of his report, the Secretary-General indicates that sustainable procurement, according to the Procurement Network of the High-level Committee on Management of the United Nations System Chief Executives Board for Coordination, integrates requirements, specifications and criteria that are compatible with and supportive of the protection of the environment, social progress and economic development, "namely by seeking resource efficiency, improving the quality of products and services and ultimately optimizing costs". In this connection, the Secretary-General also notes the recommendation of the Joint Inspection Unit that the "executive heads of the United Nations system ... should establish in-house sustainable procurement policies and guidelines, taking account of the local conditions of the host country and the needs of the field offices" (see A/65/346). According to the Secretary-General, the possible introduction of a sustainability concept with various social and environmental requirements represents one of the major development opportunities for United Nations procurement. In this regard, the Secretary-General indicates that moving forward in this area would require: (a) an analysis of cost and non-cost benefits of sustainable procurement; and (b) a definition of segments of the United Nations procurement market where the implementation of sustainable procurement would bring the most results with minimized financial and operational risks. The Secretary-General further indicates that the Procurement Division would initiate a pilot project for this purpose should the General Assembly approve this approach.

36. Upon enquiry, the Advisory Committee was informed that, according to the Secretary-General, the key elements of sustainable procurement were: (a) environmental impact, (b) development of local markets, (c) human rights, (d) labour rights, (e) gender and empowerment of women, (f) poverty eradication and (g) governance. According to the information received, sustainable procurement was not a new concept in the procurement function of the United Nations Secretariat and it was consistent with the general principles of best value for money; fairness, integrity and transparency; effective international competition; and the interest of the United Nations, which are stipulated in financial regulation 5.12 and upon which United Nations procurement is based. Furthermore, the Committee was informed that sustainable procurement could facilitate the principles of sustainable development as stated in the Plan of Implementation of the World Summit on Sustainable Development adopted in 2002.

37. According to information provided by the Secretariat, the buying power of the United Nations could be used to influence vendors, and consequently markets, through the use of sustainable criteria in the definition of its requirements from its vendors, products and services, as well as through the implementation and management of resources in its areas of operation. Furthermore, values, principles and provisions of sustainability could be factored into future acquisition projects in a phased approach to facilitate an evolution of today's procurement function. According to the Secretary-General, in order to ensure that the implementation of sustainable procurement maintains the inclusive nature of procurement in the Secretariat and the principle of effective international competition, a gradual implementation of additional provisions would complement values, principles and provisions which already exist in the Organization and in the commercial markets where the United Nations Secretariat operates. Moreover, sustainability criteria would be defined as ideals and not as mandatory requirements, in order not to limit competition, and would be introduced gradually.

38. As for the possible options for a pilot project, the Advisory Committee was informed that the Secretary-General would suggest projects in the areas of waste management, recycling and alternative energy generation, where sustainability would coincide with economic gains. The Committee was also informed that, in addition to the description of requirements for products and services, the United Nations could introduce other requirements, including the percentage use of local labour in the provision of services and certifications of environmental management.

39. **The Advisory Committee takes note of the preliminary proposals presented by the Secretary-General and recalls that the United Nations system has been called upon to improve the management of facilities and operations by taking into account sustainable development practices, building on existing efforts and promoting cost-effectiveness, in accordance with legislative frameworks, including financial rules and regulations, while maintaining accountability to Member States (General Assembly resolution 66/288, para. 96). The Committee recalls, however, that the General Assembly has not considered for approval the concept of environmentally friendly and sustainable procurement, and has requested the Secretary-General to prepare a comprehensive report on the content of and criteria for such a concept, including its possible impact on the diversification of the origin of vendors and on international competition (see resolution 62/269). In this regard, the Committee is of the view that, in order for the Assembly to consider this matter, more work needs to be done by the Secretary-General to refine the understanding of the concept of environmentally friendly and sustainable procurement and how it can be applied in practical terms to the United Nations. The Committee therefore recommends that the Assembly request the Secretary-General to address this issue comprehensively in his next report on procurement at the United Nations. The Committee considers it premature for the Secretary-General to proceed with any pilot project on sustainable procurement at this time.**

Accountability

40. The Advisory Committee recalls that in its report on the financial statements of peacekeeping operations for the period ended 30 June 2014, the Board of Auditors cites several cases in which non-compliance with established rules and

guidelines, delays, lack of monitoring and timely action by staff or apparent carelessness resulted in waste or inefficient use of resources. In particular cases, the Board was able to provide an estimate of the resulting financial loss to the Organization or has highlighted the risk thereof (A/69/5/ (Vol. II), chap. II, paras. 121, 127, 138). With regard to the charter of aircraft, the Board observed that delays in the solicitation process for new contracts resulted in the extension of the old contracts beyond their original duration period at a higher cost than that of the new contract from the same vendor. The Board noted that such additional costs would have been avoided had the respective solicitation processes been initiated and the new contracts awarded in a timely manner. **The Advisory Committee notes that, although similar cases have been cited by the Board of Auditors in the past, there has been no indication of individual accountability being assigned and action being taken to that effect.** The Committee comments further on personal and financial accountability in its report on the accountability system in the United Nations Secretariat (A/69/802).

IV. Other matters

Recent procurement trends

41. The Secretary-General indicates that the United Nations Secretariat was responsible for the largest procurement volume of all United Nations system organizations in 2012 ($3.1 billion) and 2013 ($3.2 billion), with air transportation services, fuel and petroleum products, as well as food rations, being the highest value acquisitions. Upon request, the Advisory Committee was provided with historical information showing that, with the exception of 2009 ($3.7 billion) and 2012 ($3.1 billion), the value of procurement over the period from 2008 to 2014 has remained between $3.2 and $3.5 billion annually (see table 4 below).

Table 4
Procurement trends from 2008 to 2014

Year	*Value of procurement (United States dollars)*
2014 (estimate)	3 353 959 574
2013	3 234 861 344
2012	3 086 892 401
2011	3 468 829 320
2010	3 370 627 438
2009	3 717 369 614
2008	3 332 720 728

42. Upon request, the Advisory Committee was provided with a breakdown of procurement for 2012 and 2013, listed by major categories of goods and services, which showed that the largest major category for the two periods was air transportation services (see table 5 below). The information provided also showed that in 2013 there were significant increases in the value of procurement under the categories of: chemical and petroleum products — from $368 million (12 per cent)

in 2012 to $549 million (17 per cent) in 2013; management services — from $75 million (2 per cent) in 2012 to $127 million (4 per cent) in 2013; maintenance and repair services — from $62 million (2 per cent) in 2012 to $120 million (4 per cent) in 2013; and prefabricated buildings — from $26 million (1 per cent) in 2012 to $44 million (1 per cent); cleaning and waste disposal services — from $25 million (1 per cent) in 2012 to $39 million (1 per cent) in 2013. The table also shows significant reductions in the value of procurement under freight forwarding and delivery services — from $187 million (6 per cent) in 2012 to $106 million (3 per cent) in 2013.

43. The Advisory Committee was informed, upon enquiry, that the increase in procurement value under chemical and petroleum products could be attributed to increased expenditures due mainly to the increase in the African Union Mission in Somalia (AMISOM) troop strength and the commencement of aviation fuel operations for the United Nations Support Office for AMISOM (UNSOA); the deployment of the United Nations Force Intervention Brigade in MONUSCO; and the establishment of camps and increased mission activity at the United Nations Mission in South Sudan and the African Union/United Nations Hybrid Operation in Darfur (UNAMID). The Committee was informed that the increase under management services was due to increased requirements for consultancy services with the implementation of the International Public Accounting Standards and Umoja and for validating insurance claims after Storm Sandy. It was also explained that UNAMID had erroneously used the management services commodity code to record food rations purchase orders in the amount of $23 million in 2013 and had been requested to correct the error. The Committee was informed that the increase under maintenance and repair services was attributable to activities related to the capital master plan and increased requirements for information technology services. It was again explained that UNAMID had erroneously used the maintenance and repair services commodity code to record purchase orders for fuel in the amount of $18 million in 2013 and had been requested to correct the error. The Committee was informed that the increase under prefabricated buildings was mainly attributable to support by UNSOA to the United Nations Assistance Mission in Somalia and the expansion of the troop presence in Somalia.

Table 5
Procurement by major categories of goods and services, 2012 and 2013

	2013		*2012*	
	(United States dollars)	*Percentage of total*	*(United States dollars)*	*Percentage of total*
Air transportation services	669 820 771.55	21	696 546 916.91	23
Chemical and petroleum products	548 660 133.94	17	368 018 241.78	12
Food rations/catering services	251 642 496.48	8	252 967 913.05	8
Architecture, engineering and construction-related services	239 358 906.29	7	212 653 294.90	7
Rental and lease	153 214 795.26	5	147 488 173.57	5
Management services[a]	127 226 198.35	4	74 772 354.24	2
Maintenance and repair services	120 076 131.10	4	61 741 269.12	2
Freight forwarding and delivery services	106 153 694.19	3	187 277 314.21	6

	2013		2012	
	(United States dollars)	Percentage of total	(United States dollars)	Percentage of total
Telecommunications equipment and services[b]	88 735 612.13	3	98 654 996.85	3
Electronic data-processing equipment and maintenance services[b]	86 801 267.56	3	76 942 824.36	2
Motor vehicles/parts and transportation equipment	66 402 929.62	2	63 185 010.85	2
Computer and information technology-related services[b]	53 847 392.79	2	49 706 301.00	2
Travel and related services	48 946 431.88	2	50 757 403.31	2
Prefabricated buildings	44 564 047.43	1	25 739 119.79	1
Cleaning and waste disposal services	39 451 559.76	1	24 907 543.56	1
Other (including all procurement from offices away from Headquarters, regional commissions and criminal tribunals)[a]	589 958 976.06	18	695 533 723.52	23
Total	**3 234 861 344.38**		**3 086 892 401.02**	

[a] Managed in part by the Communications and Information Technology Section.
[b] Managed by the Communications and Information Technology Section.

V. Conclusion and recommendation

44. **Subject to its observations and recommendations in the preceding paragraphs, the Advisory Committee recommends that the General Assembly take note of the report of the Secretary-General (A/69/710).**

United Nations A/69/810

General Assembly

Distr.: General
5 March 2015

Original: English

Sixty-ninth session
Agenda item 132
Programme budget for the biennium 2014-2015

Comprehensive business case for the application of flexible workplace strategies at the United Nations

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the Secretary-General on the comprehensive business case for the application of flexible workplace strategies at the United Nations (A/69/749). During its consideration of the report, the Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 17 February 2015. The Advisory Committee also visited the pilot space on the 18th floor of the Secretariat Building with representatives of the Secretary-General.

2. The report of the Secretary-General is submitted pursuant to General Assembly resolution 68/247 B, in which the Assembly requested the Secretary-General to submit a report no later than at its sixty-ninth session containing a comprehensive business case for the application of flexible workplace strategies at the United Nations. The Assembly noted that flexible workplace strategies in the United Nations should be aimed at improving the overall productivity and efficiency of the Organization, as well as the staff workplace environment. The Assembly also encouraged the Secretary-General to keep under review the functioning of the interdisciplinary working group on flexible workplace strategies to ensure that all relevant stakeholders, including staff representatives, are appropriately engaged. Finally, the Assembly requested the Secretary-General to ensure that the comprehensive business case includes linkages to ongoing reform initiatives, such as the Umoja enterprise resource planning project.

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II. Assessment of the potential for implementation of flexible workplace strategies at United Nations Headquarters

3. In his report, the Secretary-General states that he established an interdisciplinary working group to ensure that the flexible workplace programme is developed in a holistic way. The interdisciplinary working group includes representatives from the Office of Human Resources Management, the Office of Information and Communications Technology, the Facilities Management Service of the Office of Central Support Services and the Office of the Under-Secretary-General for Management. The interdisciplinary working group and project team were assisted by external consultants who specialize in flexible workplace strategies (see A/69/749, paras. 6 and 7).

4. The Secretary-General indicates that a comprehensive workspace utilization study was conducted on 15 floors of five buildings in New York (the Secretariat Building, DC-1, DC-2, the Innovation Luggage Building and the UNITAR Building), comprising 1,160 workspaces. It was found that, on average, between 38 and 48 per cent of the assigned workspaces are being utilized at any one time during the working day, demonstrating that space could be used more efficiently if the Secretariat were to introduce flexible workplace strategies (ibid., paras. 8 and 10).

5. According to the report, a detailed analysis was conducted of the existing infrastructure of the New York real estate portfolio of the Secretariat, which concluded that the Secretariat Building was the most suitable building for a flexible workplace programme. It also found that the UNITAR Building already had characteristics of a flexible workplace and that the FF Building would be a good candidate for implementation of a flexible workplace. DC-1, DC-2 and the Innovation Luggage Building would require major renovations for the implementation of a flexible workplace and are therefore not being considered for implementation (ibid., paras. 13 and 14).

6. In paragraph 15 of the report, it is indicated that a flexible workplace depends on technological solutions to support its principles, including mobile equipment, the existing Mobile Office service, the existing Unite suite and the existing Internet protocol telephone system. According to the Secretary-General, the goal is to tailor implementation to the specific needs of departments and offices based on the specific mix of tasks performed. The Secretary-General describes five space planning profiles identified for United Nations Headquarters, based on the level of privacy required for the type of work to be performed, the amount of focused work required, requirements such as access to libraries or other reference documents and technology requirements, and the amount of external and internal collaboration needed. The five profiles — executive profile, policy profile, collaboration profile, privacy profile, and operations support profile — and their distribution across the Headquarters staff population are detailed in paragraph 16 and table 1 of the report.

III. Pilot programme

7. The Secretary-General explains that in order to test the application of a flexible workplace in a United Nations working environment, a pilot programme was developed and implemented on the 18th and 19th floors of the Secretariat Building, involving 128 staff from the Strategic Planning and Staffing Division of

the Office of Human Resources Management. Eight different space types were tested as part of the pilot: reception, quiet zone, collaboration zone, meeting suite, director/meeting suite, work lounge, focus booth and library. Staff were not assigned to one specific work seat in the pilot area; instead the seats were "shared" on an as-needed basis, using a 0.81 to 1.00 seat-to-person ratio (81 work seats for 100 staff). All participants in the pilot were equipped with laptops and smartphones and had the flexibility to choose how and where they worked within the pilot workspace area depending on their work requirements at the time and their personal work style (ibid., paras. 26, 30 and 35 and table 2).

8. The Secretary-General indicates that the parts of the 18th and 19th floors of the Secretariat Building being used for the pilot formerly had 84 work seats; 21 work seats were added through reconfiguration, amounting to a total of 105 work seats. The Secretary-General states that the pilot has shown that 128 staff can operate comfortably in a space with 105 work seats. He indicates that, in addition to these space efficiency gains, 15 work seats in DC-1 can now be assigned to other departments (ibid., para. 42).

9. The Secretary-General states that at an early stage of the pilot, all 60 participants on the part of the 18th floor subject to the pilot at the time were asked their preference. Of the 35 responses, 16 preferred the pilot space, 8 preferred the space before the pilot and 11 had no preference (ibid., para. 34; see also paras. 32 and 33 below).

IV. Business case findings and conclusions

10. On the basis of the pilot, the Secretary-General concludes that a flexible workplace programme can improve the overall quality of the workplace experience at the United Nations and that the Organization can avoid significant long-term commercial real estate lease requirements at Headquarters through space efficiencies gained by implementing such a programme. The Secretary-General states that the one-time implementation and recurrent operating costs of flexible workplace strategies are modest relative to the long-term savings from the real estate to be vacated (A/69/749, para. 43).

11. The total estimated project cost for the implementation of the proposed flexible workplace strategies at United Nations Headquarters is $49.6 million. Upon completion of the project, an 18 per cent reduction in the overall office space portfolio at United Nations Headquarters is anticipated. The Secretary-General compares the estimated project costs to an estimated reduction in annual commercial lease rental costs of $18.1 million in 2018 and $19.8 million thereafter, once the Secretariat relinquishes the leases in three commercial buildings it currently occupies in New York. The leases for the three buildings, the Daily News Building, the Albano Building and the Court Square Building, will expire in 2017 and early 2018. According to the Secretary-General, the full cost of the project would be offset by the reduction in rent and maintenance by 2020, after which an annual rent and maintenance reduction of $19.8 million would be achieved (ibid., paras. 47-49).

12. Regarding the qualitative benefits of a flexible workplace, the Secretary-General states that benefits to the individual include having more choice about where and how to work. He also states that a flexible workplace environment fosters

collaboration and interaction with colleagues and increases connectivity and collaboration across the Organization regardless of location (ibid., paras. 44 and 45).

13. **The Advisory Committee commends the quality of the Secretary-General's report, which sets out clearly the cost-benefit analysis undertaken and the qualitative and quantitative benefits of flexible workplace strategies at United Nations Headquarters, as mentioned above. The Committee is of the view that the Secretary-General has presented a sound business case and recommends implementation of a flexible workplace at Headquarters. In this regard, the Committee emphasizes that the anticipated savings arising from the termination of the leases in the Daily News, Albano and Court Square Buildings are integral to the business case and that therefore it would be crucial to ensure the timely vacating of the leased office space in the three buildings.**

14. **With respect to the impact of a flexible workplace on overall productivity, as referred to by the General Assembly in its resolution 68/247 B, the Advisory Committee recognizes the difficulty in measuring productivity across the different functions performed in the Organization, but nonetheless considers that factors for the improvement of overall productivity should be taken into account in the implementation of a flexible workplace and reflected in the next report of the Secretary-General on a flexible workplace.**

V. Implementation plan for a flexible workplace at Headquarters

15. The proposed implementation plan would involve the conversion of 26 floors of the Secretariat Building and 8 floors of the FF Building to a flexible workplace configuration to create additional capacity for approximately 800 staff in the Secretariat Building and approximately 150 staff in the FF Building. The additional capacity would allow the leased office space in the Daily News, Court Square and Albano Buildings to be vacated by the time the leases end. The Secretary-General states that preliminary planning and preparatory work could begin in April 2015, with construction work in the Secretariat Building to start in September 2015 for projected completion in late 2017 and construction work on the FF Building projected for completion in February 2018 (ibid., para. 66). The Advisory Committee was informed upon enquiry that the Assistant Secretary-General for Central Support Services was the project owner of the flexible workplace initiative.

16. Upon enquiry concerning the floors in the Secretariat Building that are not proposed for conversion, the Advisory Committee was informed that those floors had specific dedicated functions and pockets of office space mostly for those people who need to be close to where their functional responsibilities are carried out. These include: the 1st basement (the Meetings Servicing Unit of the Department for General Assembly and Conference Management); the 1st floor (entrance lobby); the 2nd floor (the Protocol and Liaison Service, the Office of the Spokesperson of the Secretary-General, the Media Accreditation and Liaison Service of the Department of Public Information); the 3rd floor (external media); the 4th floor (external media, the Department of Public Information); 5th floor (the Medical Services Division of the Department of Management, Office of the Group of 77); 7th floor (United Nations Operations and Crisis Centre); 15th and 26th floors (elevator transfer floors); 37th and 38th floors (Office of the Secretary-General) and mechanical floors.

17. The Secretary-General indicates that construction of internal swing space in the Secretariat Building would be necessary to accommodate the staff moves required for the implementation plan (ibid., para. 66). **Noting the impact of staff moves on productivity and the staff workplace environment, the Advisory Committee stresses that the use of swing space for the implementation of a flexible workplace should be managed so as to ensure a limited number of staff moves.**

18. Table 6 of the report sets out the proposed space efficiency gains achievable through the implementation of a flexible workplace at Headquarters. Upon enquiry, the Advisory Committee was informed that the estimate of efficiency gains contained in the present report was more refined than that in the previous report on implementation of a flexible workplace (A/68/387), which had utilized a planning assumption of a 20 per cent reduction in office space needs. Both reports used a baseline of 220 square feet (20.4 square metres) per person, which is the current space allocation per person applicable to the Secretariat Building. The Committee was further informed that the estimated 33 per cent gain in accommodation capacity in the Secretariat Building would equate to a 25 per cent reduction of office space needs for the affected population, while the estimated 27 per cent gain in accommodation capacity in the FF Building would equate to an approximately 21 per cent reduction of office space needs for the affected population.

VI. Resource requirements

19. The proposed cost of implementation of a flexible workplace at Headquarters would amount to an estimated $49,598,600, comprising planning and design services ($500,000); Secretariat Building reconfiguration costs ($31,366,800); FF Building reconfiguration costs ($13,335,700); the initial swing space fit-out and operation cost ($2,305,900); the cost of additional staff moves to off-campus buildings (outside the flexible workplace scope) ($715,000); and the cost of the project team ($1,375,200) (A/69/749, para. 69).

20. With respect to the proposed Secretariat Building reconfiguration costs, the Secretary-General states that the total cost is based on an estimated unit cost per square foot/metre (ibid., para. 71). Upon enquiry, the Advisory Committee was informed that the per unit costs for light construction and reconfiguration of the Secretariat and FF Buildings were estimated by the consultants using the costs of similar recent projects at the United Nations in New York and industry standard costs, and taking into consideration the nature of the work required in both buildings.

21. Annex II of the report sets out in detail the fit-out costs per square foot for the Secretariat and FF Buildings. Upon enquiry, the Advisory Committee was informed that the construction and reconfiguration costs were different for the Secretariat and FF Buildings because the works required in those buildings would be substantially different. With respect to the proposed costs for permits and building charges, the Committee was informed that the costs related to obtaining building permits and approval from the landlord for construction works in rental buildings. The Committee was also informed that for works in buildings owned by the United Nations, there was a review process involving consultation and coordination with local authorities to ensure that the United Nations follows all relevant local codes.

For this process, the services of architectural consultants are required. The Committee was further informed that, based on the experience of the capital master plan, it is estimated that the equivalent costs in the Secretariat compound were approximately half that applicable in leased premises. Consequently, building and permit charges for the FF Building are estimated at $2 per square foot/$18.6 per square metre, as compared to $1 per square foot/$9.3 per square metre in the Secretariat Building.

22. In respect of the initial swing space fit-out and operation costs, the Advisory Committee was informed upon enquiry that if the temporary North Lawn Building were to be used to provide the same amount of swing space for the proposed flexible workplace project, the costs would be approximately the same as for the proposed swing space in the basement of the Secretariat Building. The Committee was further informed that additional swing space in the temporary North Lawn Building could be created. This would incur greater swing space configuration costs but would reduce the overall number of moves by providing more flexibility in planning moves and hence reduce moving costs. Furthermore, the additional flexibility would give greater assurance that the space leased in the Albano, Daily News and Court Square Buildings would be vacated on time.

23. Upon enquiry as to the costs related to the personal information technology package (laptop and smartphone) to be provided to staff for a flexible workplace, the Advisory Committee was informed that 9 smartphones had been issued to the staff prior to the pilot, with an additional 98 smartphones issued in support of the pilot. The Committee was informed that the cost incurred for smartphones for the pilot was $3,000, in addition to recurring costs of $50 per month per device. Furthermore, 100 laptops, 90 docking stations, 111 monitors and accessories, such as carrying cases, mice and theft deterrent devices, were procured at a total cost of $165,000, as replacements to desktop personal computers. **Notwithstanding its recommendation in paragraph 26 below, the Committee is not fully convinced of the rationale for providing both a smartphone, including a data plan, and a laptop to each staff member and is of the view that the Secretary-General should explore other alternatives. The Committee is also of the view that the costs related to the personal information technology package are considerable. The Committee therefore recommends that the General Assembly request the Secretary-General to review the package and the related costs for 2015 and to report on any reductions in the context of his performance report for the biennium 2014-2015.**

24. Upon enquiry, the Advisory Committee was informed that the estimated costs for furniture do not assume the use of existing furniture, except for some items of loose furniture. In flexible workplace areas, new furniture installed during the capital master plan would no longer be used. The Committee was also informed that the Secretariat would pursue options to sell any surplus furniture as part of the procurement of furniture for the flexible workplace project and that this had been factored into the cost estimates.

25. Resource requirements in respect of the biennium 2014-2015 would amount to $5,819,000 during 2015, including the proposed establishment of three general temporary assistance positions (1 P-5, 1 P-4 and 1 General Service (Other level)), contractual services, and furniture and equipment costs. The Secretary-General requests commitment authority for the 2015 costs and authority to use the Working

Capital Fund and the Special Account established by the General Assembly in its resolution 3049 A (XXVII) in the amount of $5.8 million on a cash-flow basis. The Secretary-General intends to present a funding proposal for the overall project costs (i.e. an additional $43.8 million for 2016 to 2018) in his next progress report, to be submitted at the main part of the seventieth session of the General Assembly (ibid., paras. 79-81).

26. Upon enquiry, the Advisory Committee was informed that as at 13 February 2015 the United Nations had a total of $384 million as reserves for managing cash flow of regular budget activities, comprising the Working Capital Fund ($150 million) and the Special Account ($234 million), and that the level of borrowing from the reserves amounted to $84 million as at 11 February 2015. **The Committee recommends approval of the requested resources in respect of the biennium 2014-2015 and, in that regard, recommends that the General Assembly authorize the Secretary-General to enter into commitments up to the amount of $5,819,000 and, on an exceptional basis, to use the Working Capital Fund and the Special Account to fund a flexible workplace in the amount of $5,819,000 on a cash-flow basis.**

27. **With respect to the remaining costs for 2016-2018, the Advisory Committee encourages the Secretary-General to review the requirements for possible reductions, in particular, the costs of the personal information technology package (see para. 23 above), and to consider the possibility of using existing furniture and reusing the replaced desktop personal computers to the maximum extent possible.**

VII. Other matters

Linkages with other initiatives

28. In paragraph 60 of his report, the Secretary-General explains that the concept of flexible workplace strategies is aligned closely with other transformative initiatives currently under way in the United Nations. With respect to Umoja, he states that, as staff would be able to draw on the common enterprise resource planning platform and execute many workflows in a harmonized and location-independent manner, the deployment of Umoja would be conducive to flexible working. **The Advisory Committee recommends that the General Assembly request the Secretary-General to ensure that linkages with other ongoing reform initiatives within the Organization, such as the deployment of Umoja, are taken into account in the implementation of a flexible workplace.**

Strategic heritage plan

29. The Secretary-General indicates that a dedicated project manager from the strategic heritage plan team participated in the interdisciplinary working group and that the strategic heritage plan team will consider how various flexible workplace strategies may be applied at the United Nations Office at Geneva (see A/69/749, para. 61). Upon enquiry as to the application of the proposed seat-sharing ratio (0.8:1) to the strategic heritage plan, the Advisory Committee was informed that it was not possible to provide a comparative table, as the space requirements for the strategic heritage plan were still being confirmed and developed. The Committee was further informed that the design team was developing a standard space module

approach based on minimum Swiss code requirements and physical constraints within the existing structures, and it was anticipated that the design would be sufficiently developed to make such calculations in July 2015.

30. The Advisory Committee was also informed upon enquiry that one of the key objectives of the strategic heritage plan had been to increase the overall office capacity of the buildings of the Palais des Nations by 25 per cent, to accommodate approximately 707 additional staff. The Committee was further informed that since there was presently no official guidance on flexible workplace strategies, the work of the design firm to optimize space utilization was based on the current space planning guidelines adopted by the Secretariat. **The Committee recommends that the General Assembly request the Secretary-General to incorporate flexible workplace strategies in the ongoing development of the strategic heritage plan and to provide an update in his next report on the strategic heritage plan.**

Other duty stations

31. The Secretary-General further explains that to assist other duty stations in implementing flexible workplace strategies, the expert consultant team was tasked with developing guidance documents regarding how the process at United Nations Headquarters was conducted and how it could be repeated. This guidance document would be further developed and refined using lessons learned as New York and Geneva proceed and could be applied to projects being planned at other duty stations as part of the strategic capital review (ibid., para. 85). The Advisory Committee's comments and observations on the strategic capital review are set out in its report in document A/69/811. **The Committee recommends that the General Assembly request the Secretary-General to assess the potential for application of flexible workplace strategies in all duty stations across the Organization and to provide this information in his next report on a flexible workplace.**

Staff workplace environment

32. Regarding staff readiness and interest in a flexible workplace, the Secretary-General notes from a survey of Headquarters staff launched by the Department of Management in February 2014 that, while the general response from the survey at the early stages was positive, further engagement with the staff reveals that the readiness for change varies widely across the Organization; some teams and individuals welcome the flexible workplace strategies and others are less enthusiastic about them (ibid., paras. 21 and 22; see also para. 9 above).

33. In this regard, the Advisory Committee was informed by the Assistant Secretary-General for Central Support Services that implementation of a flexible workplace would need to follow a detailed and in-depth analysis of work needs and styles and be developed through direct consultations with the departments and work groups involved. The Assistant Secretary-General also indicated that the Secretary-General stressed that flexible workplace solutions must be tailored to the specific needs of those implementing them, and direct engagement and consultation was necessary for the success of the initiative. Furthermore, the Assistant Secretary-General stated that a flexible workplace could succeed and deliver tangible benefits in terms of staff morale and satisfaction with the physical workplace and that the Secretary-General maintained that achieving those benefits should remain the primary objective of a flexible workplace. In paragraph 86 (d) of his report, the

Secretary-General indicates that the Secretariat would continue regular engagement with staff representatives and all relevant stakeholders, should the implementation plan be approved by the General Assembly. **The Advisory Committee welcomes the Secretary-General's intention to continue to engage with staff representatives, noting that the implementation of a flexible workplace should take into account staff considerations, including staff workplace environment needs and applicable health standards, and trusts that the Secretary-General will reflect information in this regard in his next report on a flexible workplace.**

VIII. Conclusion

34. **Subject to its observations and recommendations above, the Advisory Committee recommends that the General Assembly:**

(a) **Take note of the progress made since the issuance of the last report of the Secretary-General on a flexible workplace at United Nations Headquarters;**

(b) **Approve the next steps for the implementation of flexible workplace strategies at the United Nations, as described in section XI of the report of the Secretary-General;**

(c) **Approve the proposed scope of the United Nations Headquarters flexible workplace project, as described in section VII of the report of the Secretary-General, including its implementation schedule for the period from 2015 to 2018 inclusive;**

(d) **Approve the establishment of three temporary positions (1 P-5, 1 P-4 and 1 General Service (Other level)) with effect from 1 April 2015;**

(e) **Authorize the Secretary-General to enter into commitments up to the amount of $5,819,000 in respect of the project costs through 2015, as set out in table 10 of the report of the Secretary-General;**

(f) **Authorize the Secretary-General, on an exceptional basis, to make use of the Working Capital Fund and the Special Account established by the General Assembly in its resolution 3049 A (XXVII) to fund the United Nations Headquarters flexible workplace project in the amount of $5,819,000 on a cash-flow basis;**

(g) **Request the Secretary-General to submit his next report on flexible workplace strategies at the United Nations to the General Assembly at its seventieth session, including the estimated remaining project costs for 2016, 2017 and 2018 and the funding modalities.**

United Nations A/69/811

General Assembly

Distr.: General
5 March 2015

Original: English

Sixty-ninth session
Agenda item 132
Programme budget for the biennium 2014-2015

Strategic capital review

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered an advance version of the report of the Secretary-General on the strategic capital review (A/69/760). During its consideration of the report, the Advisory Committee met with representatives of the Secretary-General, who provided additional information and clarification, concluding with written responses received on 5 March 2015.

2. The report of the Secretary-General is submitted pursuant to section V of General Assembly resolution 68/247 B, in which the Assembly requested the Secretary-General to provide, inter alia, additional information on the scope, content and nature of the strategic capital review. In the same resolution, the Assembly recalled that any potential proposals stemming from the strategic capital review with budgetary implications should follow the procedure set out in the Financial Regulations and Rules of the United Nations.

II. Background and linkages with other organizational initiatives

3. Information with respect to the background and key objectives of the strategic capital review is contained in the previous report of the Advisory Committee (A/68/796, paras. 5 and 7-12). The Advisory Committee recalls that the strategic capital review has been divided into three phases (ibid., para. 3). A brief summary of the three phases and the timeline (ibid., para. 4, and A/69/760, paras. 17 and 21) is provided below:

(a) Phase 1 (completed in December 2012) focused on establishing a framework for data collection and work methodology for the review;

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(b) Phase 2 (completed in October 2014) comprised data collection and the development of local capital plans conducted by offices away from Headquarters and regional commissions;

(c) Phase 3 (begun in November 2014 and to be completed in May 2015) comprises conclusions and recommendations, including a 20-year capital maintenance programme and a database to be used for monitoring and reporting on facilities' and project performance.

4. As to the activities planned for phase 3, the Advisory Committee was informed, upon enquiry, that the data analysis of the outcome of phase 2 and the compilation of the initial 20-year capital maintenance programme were completed in December 2014 and that the remaining activities, including establishment of a database and conduct of training, are scheduled to be completed by 7 May 2015.

5. Concerning the use of terminology in the strategic capital review, the Advisory Committee further recalls that the General Assembly endorsed the recommendation of the Committee by emphasizing the technical nature of the subject matter and the need for a shared understanding and consistent application of terms, moving towards the development of a long-term capital programme and a prioritization strategy for the global premises of the United Nations Secretariat, and requested the Secretary-General to set out precise definitions (resolution 68/247 B, sect. V, para. 3). The Committee notes that a glossary has been included in the report of the Secretary-General (A/69/760) pursuant to the request of the Assembly.

6. As for the linkages with other initiatives already launched by the Organization or to be considered by the General Assembly, the Secretary-General indicates that the strategic capital review has taken into account other organizational initiatives and ongoing capital projects being undertaken by the Organization, as follows (A/69/760, paras. 5-10):

(a) The International Public Sector Accounting Standards (IPSAS): five asset classes that are valued under IPSAS are considered, including: (i) buildings; (ii) infrastructure assets; (iii) machinery and equipment; (iv) furniture and fixtures; and (v) leasehold improvements;

(b) Umoja: with the recent launch of the Umoja real estate module, key information regarding buildings owned and operated by the Organization is recorded in detail, including the location, size and age of buildings;

(c) Global service delivery model: as proposals for a new global service delivery model will be submitted for consideration by the General Assembly at the main part of its seventieth session, it has not been included as a specific driver in the report of the Secretary-General;

(d) Flexible workspace strategies: the impact of this initiative on long-term accommodation at Headquarters is significant, as it presents the opportunity to reduce leasehold obligations. However, in contrast to New York and Geneva, the impact on the other duty stations is much less significant in terms of financial savings as they do not have significant leasehold obligations.

7. The Secretary-General further indicates that, although specific targets for space usage efficiency gains are not included in the 20-year capital maintenance programme as part of the strategic capital review, space usage efficiency is one of the key objectives of the review. The lessons learned from the pilot project at

Headquarters are being shared with offices away from Headquarters and regional commissions (A/69/760, para. 11). In addition, in accordance with the request of the General Assembly, flexible workplace strategies are being considered in capital projects undertaken by the Organization. The comments and observations of the Advisory Committee on the application of flexible workplace strategies are contained in its report (A/69/810) on the report of the Secretary-General (A/69/749).

8. Upon enquiry, the Advisory Committee was also informed that it is intended that the strategic capital review will be updated periodically to respond to changing organizational requirements (see also para. 23 below). As the strategic capital review is further refined and developed, updates will be forthcoming on the possible impact of the above-mentioned initiatives should the General Assembly approve them. **The Advisory Committee stresses the importance of regularly updating the strategic capital review so that the review will reflect future decisions of the General Assembly and respond to the changing needs of the Organization.**

9. The Advisory Committee was also informed, upon enquiry, that the strategic capital review was undertaken to address the concerns related to global facilities management, to establish an Organization-wide perspective on needs and priorities in relation to the development of new facilities and major maintenance of existing facilities and to ensure adequate support for duty stations involved in such work (A/64/6 (Sect. 28D)/Add.1, para. 14). The Board of Auditors also raised the concern that the United Nations did not have a long-term asset management plan for the entire United Nations estate (A/68/5 (Vol. V), p. 6), and recommended that the Administration consider adopting a whole life-cycle asset investment strategy and assess costed options for through-life maintenance (see para. 28 below).

10. **The Advisory Committee notes that, for the first time, the Organization has developed an extensive long-term capital maintenance programme, which would serve as a viable planning tool and facilitate the consideration and decision-making of the General Assembly. The Committee, therefore, commends the efforts made by the Secretary-General in this regard.**

III. Project governance and lessons learned

11. The Secretary-General provides information on the governance structure for the management of the properties of the Organization (A/69/760, paras. 12-15). The Office of Central Support Services of the Department of Management provides support and coordination to offices away from Headquarters and regional commissions in the management of their properties and constructions. For the strategic capital review, under the overall leadership of the Assistant Secretary-General for Central Support Services, day-to-day coordination is conducted between the Overseas Properties Management Unit of the Office and the facilities managers at offices away from Headquarters and regional commissions, with support from an architectural planning consultancy firm (see para. 12 below). The Unit ensures that the projects developed by local teams are in conformity with the overall objectives of the review and that preliminary project cost estimates and timelines are developed according to a consistent methodology.

12. The Secretary-General indicates that the architectural planning consultancy firm selected for the review provides offices away from Headquarters and regional commissions with detailed technical advice as required (A/69/760, para. 14). Upon

enquiry, the Advisory Committee was informed that the total contract for the architectural planning consultancy firm is for an amount "not to exceed" €786,005. The original contract was signed on 8 May 2012 for a period of 56 weeks and was to be executed over a three-year period (expiring on 7 May 2015). As the current contract is soon to expire, the Committee requested information relating to any future use of external consultancy services in connection with the strategic capital review. The Committee was informed that the intent of the Secretariat is to continue to engage an external consultant to provide ongoing support for the review, though at a diminished capacity. Anticipated services include those described in paragraph 68 (c) of the report of the Secretary-General.

13. In this connection, the Advisory Committee was further informed that the intent of the Secretariat is to pursue the most cost-effective approach possible and to mainstream the work and the overall approach of the strategic capital review into the daily work of the Secretariat. As the reliance on external expertise is reduced, it is expected that the ongoing coordination of the strategic capital review would require strengthening the current capacity of staff in the Office of Central Support Services. However, the services of external consultants for periodic surveys of building conditions and for the implementation of renovation projects (such as architectural/engineering design and construction management services), for which the Secretariat does not have the requisite capacity, would continue to be required.

14. Annex II to the report of the Secretary-General contains information on the lessons learned from capital projects recently undertaken by the Organization. With respect to issues related to capital project contingency provision and its management and utilization, the Advisory Committee notes that what is described in paragraphs 23 and 24 of annex II is not a full reflection of the best practice recommended by the Board of Auditors in this regard.[1] On the basis of the lessons learned from the implementation of the capital master plan, the Committee has made comments and observations on the related issues, in particular in the context of the strategic heritage plan (see A/68/585, paras. 73-81) and the construction of a new facility for the International Residual Mechanism for Criminal Tribunals, Arusha branch (A/69/788, paras. 26-30). **The Advisory Committee reiterates its recommendation that the General Assembly request the Secretary-General to follow the best practice as recommended by the Board of Auditors with respect to the management and utilization of project contingency provisions in all capital projects (see also A/69/788, para. 28). The Committee recommends that the Assembly request the Secretary-General to reflect this in his future reports on the strategic capital review.**

[1] According to the Board of Auditors, it is crucial that the contingency funding is not used as a device to absorb general increases in project costs. Good practice dictates that, prior to the approval of a major project, the level of contingency required is calculated based on the types of risk which may emerge and the cost of mitigation. The Board has observed that the key differences between United Nations projects and what the Board understands as best practice are the following: (a) the use of contingency funds should be approved transparently by a governing body, such as a steering committee, not by the project; and (b) the use of the contingency should not be assumed, and should be approved only to mitigate the specific risk it was established for. If no such risks arise, the funding should be returned at the end of the project.

IV. Phase 2 of the strategic capital review: scope, data collection and findings

15. The scope of the strategic capital review covers (a) eight locations (New York, Geneva, Vienna, Nairobi, Addis Ababa, Bangkok, Beirut and Santiago) and (b) a total of 20 subregional offices of the regional commissions all housed in leased premises, pursuant to General Assembly resolution 68/247 B[2] (A/69/760, paras. 4 and 56).

16. The strategic capital review has covered 103 owned and 51 leased buildings. With regard to the owned buildings, the gross replacement value is $3.644 billion, the depreciated replacement value is $2.097 billion and the average building age is 25 years (ibid., para. 4). Concerning the utilization of the total of 154 buildings owned and leased by the Organization, the Advisory Committee was informed, upon enquiry, that it is the intention of the Secretariat to provide more detailed information on all aspects of planned projects, including utilization of the buildings, in future reports on the strategic capital review (see also para. 8 above).

17. The Secretary-General indicates that, depending on the terms of the leases, the Organization is responsible for major maintenance and/or leasehold improvements at those locations, and that these capital requirements have been included in the review (A/69/760, para. 56). Upon enquiry, the Advisory Committee was informed that the information collected and presented in the report of the Secretary-General presupposes that all of the buildings owned and operated by the Organization have a basic utility that should, foremost, be preserved. Overall, it might be noted that even if the Secretariat projects that it may not need a building in the future for whatever reason, it usually makes sense to seek to preserve its value and utility in accordance with the principles set out in the report of the Secretary-General. This protects the investment of Member States in the event that such a building may be needed by the Secretariat in the future, or for leasing to another entity, or to maximize its sale value.

18. The Advisory Committee notes that the approved and ongoing capital projects are included in the report, but excluded in the estimates of the 20-year capital maintenance plan (see paras. 20 and 21 below) as they were all developed prior to the completion of the review. Those projects comprise (a) the strategic heritage plan in Geneva; (b) the new facility for the International Residual Mechanism for Criminal Tribunals in Arusha; (c) the blast mitigation project at the Economic and Social Commission for Western Asia in Beirut; and (d) the renovation of Africa Hall at the Economic Commission for Africa in Addis Ababa (A/69/760, para. 8 and figure I). The Secretary-General indicates that, beyond the initial construction of the new facility for the International Residual Mechanism for Criminal Tribunals, it has yet to be determined whether the framework established by the strategic capital review will be used to forecast capital requirements for the new facility after it is completed. Developments in this regard will be included in future reports on the strategic capital review (ibid., para. 53).

[2] The General Assembly decided that the review should include all premises owned and managed by the United Nations that are managed by the Office of Central Support Services of the Department of Management of the Secretariat (resolution 68/247 B, sect. V, para. 5).

19. The activities undertaken during phase 2 of the review are described in paragraphs 17 to 20 of the report of the Secretary-General. It is indicated in paragraph 25 of the report that the exercise has revealed that capital improvements are necessary (a) in the near term to address urgent remedial needs and (b) in the long term based on a life-cycle replacement methodology (see paras. 27 and 28 below). According to the Secretary-General, the life-cycle replacement methodology is particularly applicable to Headquarters following the capital master plan, will be applicable to Geneva following the strategic heritage plan and will be similarly applicable to Nairobi and the regional commissions once the anticipated capital projects necessary for health, safety and security reasons have been completed (see paras. 24 and 25 below). A summary of the findings of phase 2, by location, is provided in paragraphs 26 to 52 of the report of the Secretary-General. Annex I to the report contains an overview of the real estate portfolio at each of the eight locations covered by the review, by building assets, infrastructure assets and leased buildings.

V. Phase 3 of the strategic capital review: development of the 20-year capital maintenance programme (2018-2037)

20. The initial outcome of the strategic capital review is the establishment of the long-term capital maintenance programme based on a comprehensive analysis of both the near-term and the long-term capital projects (A/69/760, para. 24). The total capital maintenance requirements are currently estimated at $1,325,571,612 over the course of 20 years or 10 bienniums (ibid., table 1). The requirements are inclusive of facilities-related requirements, related buildings, infrastructure assets, equipment and furniture, but exclusive of those security and information technology requirements currently provided for under section 33, Construction, alteration, improvement and major maintenance, of the programme budget (ibid., para. 58). The Advisory Committee was informed, upon enquiry, that the cost estimates are based on 2014 values.

21. A summary of the resource requirements for the initial 20-year capital maintenance programme, beginning in the biennium 2018-2019 and extending through the biennium 2036-2037, is provided in table 1, by biennium, and table 2, by duty station, of the report of the Secretary-General. The maintenance reinvestment rate is calculated on the basis of the average annual capital maintenance requirements as a percentage of the current gross replacement cost ($3,644,602,252) for the portfolio of assets under review (see paras. 27 and 28 below on the proposal for future incremental recapitalization). The property portfolio at each duty station is valued on two bases, namely, gross replacement cost and depreciated replacement cost. Gross replacement cost is defined as the cost to rebuild/replace the property as new, whereas the depreciated replacement cost is the depreciated value (A/69/760, para. 59).

22. Moreover, the Secretary-General recognizes that the level of capital improvements necessary to move away from the Organization's current reactive approach to capital maintenance is significantly higher than the current level of provisions for alterations and major maintenance under the programme budget (ibid., para. 24). Upon request, the Advisory Committee was provided with

information on the capital expenditure under the programme budget for the past six bienniums (see the table below).

Capital expenditure (actual)

(Thousands of United States dollars)

Component	*2002-2003*	*2004-2005*	*2006-2007*	*2008-2009*	*2010-2011*	*2012-2013*
Alteration and improvement						
1. Headquarters	40 577.8	32 874.3	28 396.7	19 840.4	3 528.3	5 931.2
2. Geneva	24 298.4	32 931.5	17 525.6	7 191.3	3 712.5	4 481.9
3. Vienna	1 486.4	1 922.9	2 085.8	3 711.3	2 417.5	2 665.3
4. Nairobi	1 141.7	8 252.3	8 170.6	2 430.7	6 785.1	2 652.2
5. Economic and Social Commission for Asia and the Pacific	1 005.4	2 725.9	3 247.1	1 888.7	457.6	2 571.5
6. Economic Commission for Latin America and the Caribbean	1 780.7	2 425.3	4 061.9	1 486.3	4 921.2	926.2
7. Economic Commission for Africa	2 246.6	4 674.6	9 215.5	3 246.3	6 856.2	1 899.4
8. Economic and Social Commission for Western Asia	–	–	266.9	–	4 197.9	–
Subtotal	**72 537.0**	**85 806.8**	**72 970.1**	**39 795.0**	**32 876.3**	**21 127.7**
Major maintenance						
1. Headquarters	8 059.3	8 933.1	7 151.1	8 015.3	7 392.0	11 390.6
2. Geneva	2 771.8	4 547.1	4 523.3	6 597.5	6 974.8	14 361.1
3. Vienna	598.4	682.2	863.3	1 155.5	1 071.9	1 035.1
4. Nairobi	1 398.8	1 514.4	1 923.6	1 957.5	3 372.2	2 854.2
5. Economic and Social Commission for Asia and the Pacific	2 018.2	1 341.8	1 430.1	1 689.6	1 853.4	710.2
6. Economic Commission for Latin America and the Caribbean	404.2	333.6	536.9	223.5	830.7	1 466.9
7. Economic Commission for Africa	905.5	548.5	644.4	749.3	982.5	1 111.3
8. Economic and Social Commission for Western Asia	–	–	–	–	–	313.3
Subtotal	**16 156.2**	**17 900.7**	**17 072.7**	**20 388.2**	**22 477.5**	**33 242.7**
United Nations enterprise network	**–**	**–**	**8 080.1**	**549.4**	**5 139.9**	**6 831.7**
Total	**88 693.2**	**103 707.5**	**98 122.9**	**60 732.6**	**60 493.7**	**61 202.1**
Other[a]						
Capital master plan (special assessment)	4 306.0	21 330.9	81 397.7	809 958.7	681 535.0	49 349.1
United Nations Office at Nairobi (rental income)	–	–	–	8 585.1	13 502.5	1 874.9

[a] The Economic Commission for Africa received $1.0 million from the support account for peacekeeping operations.

23. The Secretary-General intends to maintain the 20-year capital maintenance programme on a rolling basis by updating it at appropriate intervals (A/69/760, para. 3). He indicates that it is important that the programme be maintained and updated periodically, adjusting to new challenges, organizational objectives and other developments (ibid., para. 23). This tool will then become the framework for planning and developing future capital improvements.

Near-term capital expenditure and other projects

24. A summary of the anticipated projects identified for implementation within the first 10 years of the 20-year programme is provided in section 4 of figure I of the report of the Secretary-General, which shows cost estimates related to the projects in Addis Ababa, Bangkok, Nairobi and Santiago. The projects at the four duty stations are listed under each of the three headings (life safety, modernization and programmatic objectives) representing the primary objectives for the projects. The Secretary-General indicates that, although a project may have more than one benefit or objective, projects are considered to have a single primary objective for the purpose of this planning exercise (A/69/760, para. 61). Upon enquiry, the Advisory Committee was informed that there are no projects planned or established for the second half of the 20-year period.

25. The anticipated projects in Addis Ababa, Bangkok, Nairobi and Santiago for the bienniums from 2018-2019 to 2026-2027 (ibid., para. 61) are as follows:

(a) Life safety: (i) structural and life safety remediation of the secretariat tower at the Economic and Social Commission for Asia and the Pacific; and (ii) structural and life safety remediation of the old office building tower at the Economic Commission for Africa;

(b) Modernization and maintenance of property value: (i) replacement of old office blocks (blocks A to J) at the United Nations Office at Nairobi; (ii) replacement of site infrastructure at the United Nations Office at Nairobi; and (iii) renovation of the north building at the Economic Commission for Latin America and the Caribbean;

(c) Programmatic objectives: (i) renovation of the library and cafeteria buildings at the Economic Commission for Africa; and (ii) expansion of conference facilities at the United Nations Office at Nairobi.

26. The Advisory Committee sought clarification on the anticipated capital projects as shown in section 4 of figure I of the report of the Secretary-General and was informed that the reasons for separately listing those projects include their size in terms of both area/square footage and cost, the anticipated duration for implementation, their complexity, and the requirements for dedicated project management, architectural and engineering design services or other specialist services beyond the current capacity of the Organization. Upon request, the Advisory Committee was provided with revised sections 4 and 5 of figure I in the report of the Secretary-General (see the annex to the present report). **The Advisory Committee notes that presenting the anticipated capital projects in a group distinct from the other maintenance activities under section 33 of the programme budget provides more clarity with respect to the resource estimates identified in the strategic capital review. It is, therefore, of the view that all**

capital projects should be presented in such a transparent manner in future proposals of the Secretary-General.

Proposal for future incremental recapitalization based on a life-cycle replacement methodology

27. Following the completion of the anticipated near-term capital expenditure and other projects undertaken during the first 10 years of the 20-year programme, and once the facilities are upgraded or newly constructed, the Secretary-General recommends that the Organization put into effect an incremental recapitalization plan based on the life-cycle replacement methodology (A/69/760, para. 63). He provides justifications for the methodology, including the following: (a) it extends the useful lives of assets; (b) it keeps the assets fit for purpose; (c) it reduces the cost of keeping assets operational; (d) it provides a better risk management strategy; and (e) it saves on additional/associated costs attributed to implementing large-scale projects, such as the costs of swing space and interruption to business (ibid., para. 66).

28. As for future budgeting for capital expenditure under the proposed life-cycle replacement methodology, the Secretary-General indicates that the 50-year useful life of buildings implies that such buildings should be recapitalized at least once every 50 years. Effectively, this means that 1/50th of the gross replacement cost should be budgeted for each year for the purpose of recapitalization, hence the 2 per cent annual maintenance reinvestment rate considered in his previous report (ibid., para. 64).[3] In this connection, the Advisory Committee recalls that, according to the Board of Auditors, the expenditure profiles for a robust whole life-cycle investment profile can fluctuate significantly from year to year. For example, electrical cooling units may have a 15-20 year replacement cycle, creating a significant but irregular cash flow demand over longer time frames. Some organizations choose to pay for whole life-cycle investments out of a normal operating revenue account, accepting the rationale for irregular cash flow demand patterns. Others, more typically, set up a sinking fund to provide sufficient returns each year to pay for repairs and minor maintenance. Once the initial capital investment has been made, the objective is to fund the maintenance regime from the annual returns. **The Advisory Committee is of the view that more detailed information is required for the future budgeting and funding for an incremental recapitalization plan based on the life-cycle replacement methodology so that Member States will have a better understanding of the financial implications of this proposal.**

29. The Secretary-General anticipates that, provided that the function of a building is required beyond its useful life, as is the case for all of the buildings currently in use by the Organization, it will need to be recapitalized at least once prior to the end of its useful life. Ideally this recapitalization should occur incrementally over a period of time, but it may occur all at once in a single replacement project (ibid., para. 65). Figures 2 to 4 in the report of the Secretary-General illustrate asset performance over time under two methodologies, namely, (a) recapitalization of an asset at the end of its useful life or (b) incremental recapitalization of an asset during the first half of its useful life.

[3] According to the Secretary-General, the maintenance reinvestment rate of a particular location might need to be higher than 2 per cent for the next few years because a number of buildings are reaching the end of their useful lives.

30. The Advisory Committee enquired whether it was possible to conduct a cost-benefit analysis of the capital master plan project, including the value of the Secretariat building before the project. The Committee was informed that an accurate valuation of the Secretariat complex prior to the capital master plan was not readily available, given that, until the adoption of IPSAS, property values were recorded primarily for insurance purposes. These were most closely related to what is now referred to, since the adoption of IPSAS in 2014, as gross replacement cost rather than depreciated value. The gross replacement value of the properties owned by the United Nations at Headquarters in New York was reported in 2007 to be $770,696,000 (see A/62/6 (Sect. 32)), while the gross replacement cost of the same properties, according to the IPSAS-compliant valuation exercise carried out in 2014 and reported in the current report, amounts to $1,748,421,225. The Committee was further informed that, in general terms, the Organization aims to avoid or minimize the use of costly commercial swing space, such as that required under the capital master plan, in future capital projects. Most of the preliminary planned projects included in the capital maintenance programme do not entail the use of commercial swing space.

31. The Advisory Committee further enquired whether there was any way to substantiate the cost-effectiveness of the proposed methodology, proving that a preventative maintenance of premises would be less expensive than the current reactive capital investment approach. The Committee was informed that, although the Secretariat did not have any definitive empirical data to confirm that savings would be achieved in all circumstances by a preventative maintenance programme, review of industry benchmark studies had indicated that such an approach could save as much as 12 per cent over a reactive maintenance approach over time. This is based on the premise that a preventative maintenance programme was a more planned and controlled approach to maintaining facilities. **The Advisory Committee expects that more information on the potential costs and benefits of a preventative maintenance programme will be provided in the next report of the Secretary-General on the strategic capital review.**

32. On the potential funding of the capital projects identified in the strategic capital review, the Advisory Committee was informed, upon enquiry, that normally all construction, alteration improvements and major maintenance work, irrespective of size and complexity, are proposed under section 33 of the proposed programme budget — except in the case of the capital master plan, for which the General Assembly decided upon a special assessment mechanism. Currently, the anticipated capital projects are in the planning stages and the review has focused mainly on defining the requirements. Funding options will be the subject of future reports to be considered by the General Assembly.

33. The Advisory Committee was informed, upon enquiry, that the Secretary-General is guided by the request of the General Assembly to ensure that major capital expenditure projects are not implemented simultaneously in order to prevent the need to finance them at the same time (resolutions 66/247 and 67/254 A). As to the definition of major capital expenditure projects, the Committee was informed that it is the understanding of the Secretariat that this request has three dimensions, namely, (a) scope (major capital expenditure projects to be constructed by the United Nations); (b) timing (not to be implemented simultaneously); and (c) purpose (to prevent the need to finance them at the same time). The Secretariat understands that the Secretary-General should ensure that any construction/

renovation project which requires major capital expenditure is not implemented concurrently with another to avoid the need to finance them in parallel. The capital master plan and the strategic heritage plan are in this category of capital expenditure projects.

34. Furthermore, the Advisory Committee was informed that various options have been explored to meet the long-term accommodation needs at United Nations Headquarters, including solutions which would entail major capital expenditure, financed by an assessment upon Member States, but also solutions that would not entail a special assessment upon Member States for major capital costs. It is the understanding of the Secretariat that the latter would not be subject to the above-mentioned request of the General Assembly. One possible example would be the option of financing DC-5 through a lease-to-own arrangement with the United Nations Development Corporation. In summary, it is the understanding of the Secretariat that, upon the completion of the capital master plan, major projects may proceed concurrently if funding arrangements can be put in place that do not require major capital expenditure or a special assessment upon Member States for more than one of those projects. The next major capital project is the strategic heritage plan.

Need for clarity in the presentation of the proposals of the Secretary-General

35. The Secretary-General recommends that the General Assembly (a) take note of the report and (b) request him to report to the Assembly, at the first part of its resumed seventieth session, on the long-term capital maintenance programme (2018-2037), including detailed information for the preliminary planned projects and the related cost estimates (A/69/760, para. 69). **The Advisory Committee is of the view that the information contained in paragraph 69 (a) and (b) lacks clarity with respect to the proposals of the Secretary-General, the precise actions requested of the General Assembly, along with implications relating to possible endorsement of these actions.**

36. Upon a request for clarification in this regard, the Committee was informed that the Secretary-General is not, in his report (A/69/760), seeking approval for specific projects or other major maintenance and alterations and improvements activities identified as a result of the completion of the initial strategic capital review. Rather, the Secretary-General is seeking general concurrence with the principles set forth in the report, as follows:

(a) Periodic studies of the existing conditions of buildings and infrastructure assets should be undertaken by the Organization;

(b) Prospective projects and maintenance activities should be identified well in advance to allow for consideration by Member States;

(c) The capital maintenance programme should be regularly updated to incorporate changing organizational requirements;

(d) A systematic and planned approach to capital maintenance should be employed, rather than the current reactive approach, so as to avoid large, high-risk projects when possible.

37. Upon enquiry, the Advisory Committee was further informed that the "preliminary planned projects" referred to in paragraph 69 (b) are the "anticipated

projects" listed in section 4 of figure 1 of the report of the Secretary-General (see paras. 24 and 25 above). As at this stage of the review, the development of those projects has included: (a) identification of the requirements, through conditions assessments; (b) conceptual programming, meaning that the approximate sizes and functions of the projects have been estimated; (c) conceptual implementation planning, including phasing and scheduling; and (d) conceptual cost estimates, as set out in figure 1, based on the concept programmes and implementation plans. In addition, the Advisory Committee was informed that the intent of the Secretariat is to further develop these projects from a conceptual level to a more refined level, a level at which they can be reported to Member States for further consideration at the first part of the resumed seventieth session of the General Assembly and, eventually, for approval.

38. The Advisory Committee was further informed that the report of the Secretary-General is intended to be of use to the General Assembly primarily as a planning document. It is envisaged that the next report on the strategic capital review would provide more detailed information on the preliminary planned projects, particularly those that may be considered in the context of the preparation of the proposed programme budget for the biennium 2018-2019. However, those projects would be proposed in accordance within the regulatory framework established for determining resource requirements under the proposed programme budget.

39. **The Advisory Committee supports the general principles proposed by the Secretary-General in the context of the strategic capital review as explained in paragraph 36 above. The Committee is, nonetheless, of the view that the proposal for future incremental recapitalization based on a life-cycle replacement methodology should be refined and the costs and benefits of a preventative maintenance programme be further detailed in the next report of the Secretary-General on the strategic capital review (see paras. 28 and 31 above).**

40. **In this connection, the Advisory Committee recalls its observation that future decisions concerning the level of resources required for future capital investment and/or progressive maintenance requirements for the Organization's capital assets depend on the application of a reliable, consistent and realistic valuation methodology, along with details concerning the applicability of comparable industry standards to all United Nations-owned and/or operated premises (A/68/796, para. 28).**

VI. Conclusion and recommendations

41. **The Advisory Committee recommends that the General Assembly take note of the report of the Secretary-General, taking into account its comments and observations in the preceding paragraphs.**

Annex

Sequencing of near-term and long-term capital expenditure projects and other construction works

Projected timeline, 2013-2037

(Millions of United States dollars)

Project	Value	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	Total
4. Anticipated capital projects																											
Life safety																											
Economic Commission for Africa — old office building																											
Proposed budget	13.7									1.1		5.3		5.3													
Economic and Social Commission for Asia and the Pacific — secretariat tower																											
Estimated cost	26.2							5.5		5.9		4.6		5.1		5.1											
Modernization																											
United Nations Office at Nairobi — blocks A-J																											
Estimated cost	38.8							19.9		19.9																	
United Nations Office at Nairobi — site infrastructure																											
Estimated cost	18.9							3.1		4.2		5.4		6.1													
Economic Commission for Latin America and the Caribbean — north building																											
Estimated cost	7.2							1.7		5.5																	
Programmatic objectives																											
Economic Commission for Africa — cafeteria and library																											
Estimated cost	9.6							2.5		4.0		1.5		1.5													
United Nations Office at Nairobi — conference west																											
Estimated cost	7.0									3.5		3.5															
United Nations Office at Nairobi — conference east																											
Estimated cost	6.4											3.2		3.2													
Estimated total cost for anticipated capital projects								32.7		44.1		23.5		21.2		5.1											126.6
5. Ongoing — construction, alteration, improvement and major maintenance																											
New York								8.1		8.5		26.7		80.1		64.0		40.8		38.8		60.4		99.7		147.4	
Geneva								10.0		10.0		10.0		10.0		14.8		15.0		25.9		33.9		40.5		37.9	
Vienna								2.6		2.6		1.8		1.5		4.6		2.3		8.6		3.3		1.9		1.9	
Nairobi								21.4		30.8		20.5		19.9		11.8		12.2		10.4		8.1		30.7		71.6	
Bangkok								8.2		3.8		0.7		1.4		5.4		6.6		6.3		2.7		3.6		1.7	
Santiago								12.8		5.4		1.4		0.1		0.2		3.5		1.7		0.5		0.1		-	
Addis Ababa								13.4		13.9		10.7		10.7		9.8		16.7		15.3		13.7		15.2		24.2	
Estimated cost								**76.5**		**74.9**		**77.8**		**89.7**		**111.2**		**105.1**		**114.5**		**122.7**		**199.8**		**224.7**	**1,197.0**
Estimated total cost								**109.2**		**121.0**		**101.3**		**110.9**		**116.3**		**105.1**		**114.5**		**122.7**		**199.8**		**224.7**	**1,323.6**

Legend

- Planning and design phases
- Implementation/construction phase
- Implementation phase of projects not yet approved
- Planning phases of projects not yet approved